

**HIGHLAND CITY, UTAH  
BASIC FINANCIAL STATEMENTS AND  
REQUIRED SUPPLEMENTARY INFORMATION  
WITH INDEPENDENT AUDITOR'S REPORTS  
YEAR ENDED JUNE 30, 2006**

# **CITY OF HIGHLAND, UTAH**

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**INDEPENDENT AUDITOR'S REPORT**

**November 6, 2006**

**Honorable Mayor  
Members of the City Council  
Highland City, Utah**

**Council Members:**

**I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Highland City, Utah (City) as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. My responsibility is to express opinions on these financial statements based on my audit.**

**I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.**

**In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.**

**In accordance with *Government Auditing Standards*, I have also issued a report dated November 6, 2006 on my consideration of Highland City, Utah's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.**

The management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Highland City's basic financial statements. The combining nonmajor fund financial statements and the schedule of impact fees listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The schedule of impact fees has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on it.

  
Greg Ogden,  
Certified Public Accountant

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

## Management's Discussion and Analysis

The management of Highland City presents the following narrative and analysis of the financial statements and financial activities of Highland City as prescribed by the Government Accounting Standards Board (GASB). The information and analysis pertains to the fiscal year ended June 30, 2006.

### Financial Highlights

The assets of Highland City exceeded its liabilities at June 30, 2006 by \$78,110,979 (net assets). Of this amount \$11,059,310 (unrestricted net assets) may be used to meet the government's ongoing obligations.

Highland City's total net assets increased by \$36,412,175. Elements of the increase were: 1) capital assets contributed by developers (secondary water lines, sewer lines, water stock, streets, etc.) increased by \$31,183,303, 2) ongoing operations of the governmental activities provided \$3,682,145; 3) ongoing operations of the business-type activities assets provided \$1,546,727.

Highland City's governmental funds reported combined ending fund balances at June 30, 2006 of \$9,546,112, an increase of \$2,291,252 in comparison to the prior year. Of the ending fund balances, \$6,231,638 is available for spending at the City's discretion (unreserved fund balance).

At June 30, 2006 unreserved fund balance of the general fund was \$659,228, or 16.76% of total general fund expenditures for the year.

Highland City's total debt decreased by \$2,173,285 during the fiscal year as a result of scheduled principal payments and the payoff of the sewer revenue bonds. No new debt was incurred during the year.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Highland City's basic financial statements. Highland City's basic financial statements comprise three components; 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of Highland City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of Highland City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as an indicator of changes in the financial position of the City.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. For example, uncollected taxes that have been levied but not received.

Both of the government-wide financial statements distinguish functions of Highland City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of Highland City include general government, public safety, streets and public improvements, parks and recreation, cemetery and garbage. The business-type activities of Highland City include services for water, pressurized irrigation, sewer (sanitary), and storm sewer.

The government-wide financial statements include Highland City (known as the primary government) and a separate legal entity (known as component unit). The financial information for the Highland Open Space Special Service District is included in the financial statements. However, because the City's governing body is the same as the governing board of this component unit and can substantially control it, their financial information is blended and reported together with the financial information presented for the primary government.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Highland City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related laws and regulations. All of the funds of Highland City can be divided into two categories; governmental funds and proprietary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the near-term financing requirements.



Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Highland City maintains six (6) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund and three capital projects funds, all of which are considered to be major funds. Data from the other two (2) governmental funds is provided in the form of individual and combining statements elsewhere in this report.

Highland City adopts an annual budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with the budget.

Proprietary funds. Highland City maintains one type of proprietary fund known as an enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for water, pressurized irrigation, sewer, and storm sewer.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for water, sewer, secondary water and storm sewer funds because they are considered to be major funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents combining statements referred to earlier in connection with non-major governmental funds. They are presented immediately following the notes to the financial statements. Auditor reports on compliance are also included at the end of the document.

## Government-wide Financial Analysis

As noted earlier, net assets is an indicator of a government's financial position. In the case of Highland City, assets exceeded liabilities by \$78,110,979 at the close of the fiscal year.

The largest portion of the City's net assets reflects its investment in capital assets (land, buildings, machinery and equipment) and infrastructure (roads, sidewalks, curb and gutter and various utility lines and storage facilities), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities.

The remaining balance of unrestricted net assets (\$11,059,310) may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City was able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

### Highland City Net Assets

	Governmental Activities 2005	Business-Type Activities 2005	Governmental Activities 2006	Business-Type Activities 2006
Current and Other Assets	\$6,129,977	\$3,453,259	\$8,510,007	\$3,641,190
Capital Assets	\$8,967,622	\$31,473,833	\$34,885,081	\$37,564,317
Total Assets	\$15,097,599	\$34,927,092	\$43,395,088	\$41,205,507
Long-term Liabilities outstanding	\$881,099	\$6,548,922	\$665,159	\$4,678,488
Other Liabilities	\$549,476	\$346,390	\$747,294	\$398,675
Total Liabilities	\$1,430,575	\$6,895,312	\$1,412,453	\$5,077,163
Net assets:				
Investment in capital assets, net	\$5,883,249	\$22,873,237	\$31,358,075	\$31,852,285
Restricted	\$2,628,294	\$1,769,823	\$3,042,974	\$798,335
Unrestricted	\$5,155,481	\$3,388,720	\$7,581,586	\$3,477,724
Total net assets	\$13,667,024	\$28,031,780	\$41,982,635	\$36,128,344

## Highland City Changes in Net Assets

	Governmental Activities 2005	Business-Type Activities 2005	Governmental Activities 2006	Business-Type Activities 2006
Revenues				
Program Revenues				
Charges for services	\$2,422,216	\$1,717,944	\$2,284,423	\$2,584,626
Operating Grants and Contributions	\$4,220		\$5,316	
Capital Grants and Contributions	\$1,967,225	\$5,469,211	\$26,900,859	\$7,589,836
General revenues:				
Property and uniform vehicle taxes	\$947,512		\$1,393,342	
Other Taxes	\$1,503,874		\$1,997,999	
Other	\$161,346	\$119,153	\$381,985	\$200,160
Total revenues	\$7,006,393	\$7,306,308	\$32,963,924	\$10,374,622
Expenses:				
General government	\$1,033,084		\$1,254,134	
Public safety	\$1,288,800		\$1,511,554	
Streets and public improvements	\$427,390		\$660,995	
Parks and recreation	\$432,467		\$606,882	
Garbage	\$406,322		\$440,244	
Interest on long-term debt	\$45,529		\$39,039	
Cemetery	\$50,528		\$135,465	
Water		\$130,549		\$533,684
Pressurized irrigation		\$917,081		\$903,835
Storm sewer		\$80,849		\$111,576
Sewer		\$711,543		\$728,963
Total expenses	\$3,684,120	\$1,840,022	\$4,648,313	\$2,278,058
Increase in net assets before transfers	\$3,322,273	\$5,466,286	\$28,315,611	\$8,096,564
Transfers	-\$2,232,860	\$2,232,860		
Increase (decrease) in net assets	\$1,089,413	\$7,699,146	\$28,315,611	\$8,096,564
Net assets, beginning	\$12,706,641	\$20,332,634	\$13,667,024	\$28,031,780
Prior Period Adjustments	-\$129,030			
Net assets, ending	\$13,667,024	\$28,031,780	\$41,982,635	\$36,128,344

Governmental activities. As noted in the table above, governmental activities increased the City's net assets by \$28,315,611 . Key elements of the increase were as follows:

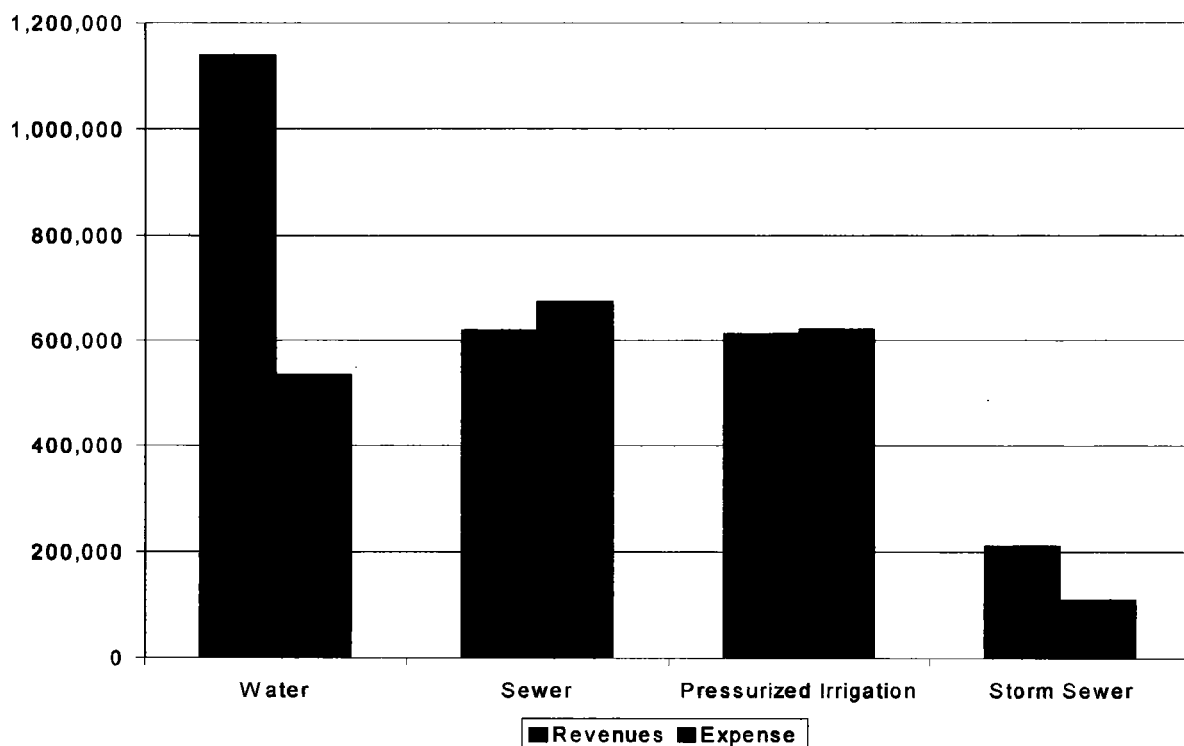
1. Developer fees for parks, roads, and public safety impact fees of \$2,267,393.
2. Developer contributions of land and improvements of \$24,633,466.
3. Operation of governmental activities increased net assets by \$1,414,752.

Business-type activities. As noted previously in the table "Highland City Changes in Net Assets," business-type activities increased the City's net assets by \$8,096,564. Key elements of the increase were as follows;

1. Developer contributions of system improvements of \$7,589,836
2. Operation of the business-type activities increased net assets by \$506,728.

The following chart displays the business-type activities revenues compared to program expenses attributed to the activity. Traditionally business-type activities are self supporting and the chart depicts the relationship of revenues to expenses.

Operating Revenues and Expenses – Business-type Activities



## Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance is a useful measure of the government's net resources available for spending at the end of the fiscal year.

At June 30, 2006, the City's governmental funds reported combined ending fund balances of \$9,546,112, an increase of \$2,291,252 in comparison with the prior year. Approximately 65% of this total amount \$6,231,638 constitutes unreserved fund balance, which is available for spending at the government's discretion. The reserved fund balance is not available for new spending because it has already been committed.

The general fund is the main operating fund of the City. At June 30, 2006, unreserved fund balance of the general fund was \$659,228. A comparison of the unreserved fund balance and total fund balance to total general fund expenditures is a measure of liquidity. Unreserved fund balance represented 16.7% of total general fund expenditures. The City's general fund balance increased \$254,288 during the fiscal year ended June 30, 2006.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, in more detail.

Water fund-Unrestricted net assets at June 30, 2006 amounted to \$484,153, an increase of \$203,436 from the previous year. Operating revenues were \$1,139,592 and operating expenses were \$533,684. Contributions from developers were \$2,205,128.

Secondary water fund- Unrestricted net assets at June 30, 2006 amounted to \$789,260, a decrease of \$160,235 from the previous year. Operating revenues were \$612,636 and operating expenses were \$620,650. Contributions from developers were \$1,150,227.

Storm sewer fund - Unrestricted net assets at June 30, 2006 amounted to \$216,634 a decrease of \$43,006. Operating revenues were \$212,261 and operating expenses were \$111,576. Contributions from developers were \$1,093,748.

Sewer fund - Unrestricted net assets at June 30, 2006 amounted to \$1,987,677, an increase of \$88,809 from the previous year. Operating revenues were \$620,137 and operating expenses were \$672,914. Contributions from developers were \$2,100,734.

### General Fund Budgetary Highlights

During the fiscal year, the general fund's original budget was amended from \$4,592,540 (\$3,797,718 expenditures, \$149,822 increase in fund balance, and \$645,000 transfers) to a final budget total of \$5,106,065 (\$3,939,888 expenditures, and \$1,166,177 transfers), an increase of \$513,525. The decreases and funding sources are briefly summarized below.

An additional amount was transferred to the building capital project fund. The other adjustments were minor in each department. The increases were funded from additional taxes and fees collected.

### Capital Assets and Debt Administration

Capital Assets. Highland City's investment in capital assets from governmental and business-type activities as of June 30, 2006 was \$68,608,089 (net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements other than buildings, machinery and equipment, infrastructure and water stock. The total increase in the City's investment in capital assets for the current year was \$32,435,900.

Major capital asset events during the current year included the following:

- 1) Infrastructure contributions by developers-land, roads, curb and gutter, sidewalks, and park improvements.
- 2) Various additions were made to sewer, and secondary water systems by the City and by developers.

### Highland City Capital Assets

	Governmental Activities 2005	Business-Type Activities 2005	Governmental Activities 2006	Business-Type Activities 2006
Land	\$3,277,129	\$384,582	\$19,892,534	\$384,582
Water Shares		\$13,126,578		\$13,126,578
Construction in Progress		\$572,071		
Buildings	\$1,424,465	\$403,376	\$1,561,155	\$1,128,624
Machinery and Equip	\$648,375	\$442,956	\$700,877	\$501,146
Infrastructure and Imp	\$2,501,685	\$18,777,634	\$11,267,610	\$26,164,430
Total	\$7,851,654	\$33,707,197	\$33,422,176	\$41,305,360
Less Accumulated Dep	<u>-\$1,383,475</u>	<u>-\$4,003,187</u>	<u>-\$1,580,069</u>	<u>-\$4,539,378</u>
Total net assets	<u>\$6,468,179</u>	<u>\$29,704,010</u>	<u>\$31,842,107</u>	<u>\$36,765,982</u>

Additional information on the City's capital assets is available in the notes to the financial statements.

Long-term debt. On June 30, 2006 the City had a total bonded debt outstanding of \$5,088,390. All this amount \$5,088,390 was considered general obligation debt and was backed by the full faith and credit of the City.

### Highland City Outstanding Debt

	Governmental Activities 2005	Business-Type Activities 2005	Governmental Activities 2006	Business-Type Activities 2006
General obligation bonds		\$5,423,390		\$5,088,390
Revenue bonds		\$1,600,000		
Other Long Term Debt	\$881,098		\$665,159	\$25,027
<b>Total</b>	<b>\$881,098</b>	<b>\$7,023,390</b>	<b>\$665,159</b>	<b>\$5,113,417</b>

The City's total debt decreased by \$2,173,285 during the current fiscal year as a result of scheduled principal payments and the payoff of the sewer revenue bonds.

The Secondary water bonds are unrated. The bonds were originally issued in 1996 and were refinanced in 1998.

The Utah State Constitution limits the amount of general obligation debt a municipal government may issue at 4% of its total taxable property value of \$919,195,387, except cities of the third class (Highland City is classified as a third class city) may issue debt up to an additional 8% of its total taxable property value of \$919,195,387 for water systems, artificial lighting systems or sewer systems. On June 30, 2006 the City's limitation was \$36,767,815 and the current general obligation bonds are \$5,088,390 which would be under the limitation and the additional limitation was \$73,535,631.

### Economic Factors and Next Year's Budgets and Rates

Inflationary trends of the state and region compare favorably to the national indices. These and other factors were considered in preparing Highland City's budget for the 2006-2007 fiscal year.

During the current fiscal year, unreserved fund balance in the general fund increased by \$114,595. The general fund unreserved fund balance of \$659,228 represented 16.7% of general fund revenues which is within the range of 5 to 18% limit allowed by state law. Use of the fund balance was primarily for maintaining the level of funding for capital projects.

#### Request for Information

This financial report is designed to provide a general overview of Highland City's activities for those with an interest in the City's operations and position. Questions concerning the information provided in this report or requests for additional financial information should be addressed to: Highland City, Finance Director, 5335 W. 10400 N Highland, Utah 84003.



## **BASIC FINANCIAL STATEMENTS**

**CITY OF HIGHLAND, UTAH**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2006**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals</u>
<b><u>ASSETS</u></b>			
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	\$ 6,929,463	\$ 3,508,413	\$ 10,437,876
Accounts Receivable, Net of Allowance for Uncollectibles	1,494,388	218,933	1,713,321
Internal Balances	86,156	(86,156)	-
<b>TOTAL CURRENT ASSETS</b>	<u>8,510,007</u>	<u>3,641,190</u>	<u>12,151,197</u>
<b>NONCURRENT ASSETS</b>			
Restricted Assets			
Cash and Cash Equivalents	3,042,974	798,335	3,841,309
Capital Assets			
Non Depreciable	19,892,534	13,511,160	33,403,694
Depreciable Assets (net of Depreciation)	11,949,573	23,254,822	35,204,395
<b>TOTAL NONCURRENT ASSETS</b>	<u>34,885,081</u>	<u>37,564,317</u>	<u>72,449,398</u>
<b>TOTAL ASSETS</b>	<u>43,395,088</u>	<u>41,205,507</u>	<u>84,600,595</u>
<b><u>LIABILITIES</u></b>			
<b>CURRENT LIABILITIES</b>			
Accounts Payable and Accrued Expenses	727,294	398,675	1,125,969
Contingent Liability	20,000	-	20,000
<b>TOTAL CURRENT LIABILITIES</b>	<u>747,294</u>	<u>398,675</u>	<u>1,145,969</u>
<b>NONCURRENT LIABILITIES</b>			
Due Within One Year	209,622	385,027	594,649
Due in more than One Year	455,537	4,293,461	4,748,998
<b>TOTAL NONCURRENT LIABILITIES</b>	<u>665,159</u>	<u>4,678,488</u>	<u>5,343,647</u>
<b>TOTAL LIABILITIES</b>	<u>1,412,453</u>	<u>5,077,163</u>	<u>6,489,616</u>
<b><u>NET ASSETS</u></b>			
Investment in Capital Assets, Net of Related Debt	31,358,075	31,852,285	63,210,360
Restricted for			
Community Improvements	3,042,974	798,335	3,841,309
Unrestricted	7,581,586	3,477,724	11,059,310
<b>TOTAL NET ASSETS</b>	<u>\$ 41,982,635</u>	<u>\$ 36,128,344</u>	<u>\$ 78,110,979</u>

See the accompanying notes to the financial statements

**CITY OF HIGHLAND, UTAH**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2006**

		Program Revenues		
		Charges for	Operating	Capital
	Expenses	Services	Grants and Contributions	Grants and Contributions
<b><u>FUNCTIONS/PROGRAMS</u></b>				
<b>Governmental Activities</b>				
General Government	\$ 1,254,134	\$ 25,279	\$ -	\$ -
Public Safety	1,511,554	1,257,104	5,316	306,279
Streets and Public Works	660,995	135,658	-	25,644,513
Parks and Recreation	606,882	373,130	-	950,067
Cemetery	135,465	47,762	-	-
Garbage	440,244	445,490	-	-
Interest on Long-Term Debt	39,039	-	-	-
<b>Total Governmental Activities</b>	<b>4,648,313</b>	<b>2,284,423</b>	<b>5,316</b>	<b>26,900,859</b>
<b>Business-type Activities</b>				
Water	533,684	1,139,592	-	2,205,128
Sewer	728,963	620,137	-	2,746,010
Secondary Water	903,835	612,636	-	1,544,950
Storm Sewer	111,576	212,261	-	1,093,748
<b>Total Business-type Activities</b>	<b>2,278,058</b>	<b>2,584,626</b>	<b>-</b>	<b>7,589,836</b>
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 6,926,371</b>	<b>\$ 4,869,049</b>	<b>\$ 5,316</b>	<b>\$ 34,490,695</b>

**General Revenues**

Property Taxes

Vehicle Taxes

Sales Taxes

Franchise Taxes

Unrestricted Investment Earnings

Miscellaneous

**Total General Revenues and Transfers**

**Change in Net Assets**

**Net Assets - Beginning**

**Net Assets - Ending**

See the accompanying notes to the financial statements

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**Net (Expense) Revenue and Changes in Net Assets****Primary Government**

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<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
\$ (1,228,855)	-	\$ (1,228,855)
57,145	-	57,145
25,119,176	-	25,119,176
716,315	-	716,315
(87,703)	-	(87,703)
5,246	-	5,246
<u>(39,039)</u>	<u>-</u>	<u>(39,039)</u>
 24,542,285	 -	 24,542,285
 -	2,811,036	2,811,036
-	2,637,184	2,637,184
-	1,253,751	1,253,751
-	<u>1,194,433</u>	<u>1,194,433</u>
 -	 7,896,404	 7,896,404
 24,542,285	 7,896,404	 32,438,689
  1,267,684	  -	  1,267,684
125,658	-	125,658
1,262,101	-	1,262,101
735,898	-	735,898
381,921	200,160	582,081
64	-	64
<u>3,773,326</u>	<u>200,160</u>	<u>3,973,486</u>
28,315,611	8,096,564	36,412,175
<u>13,667,024</u>	<u>28,031,780</u>	<u>41,698,804</u>
 \$ 41,982,635	 \$ 36,128,344	 \$ 78,110,979

# CITY OF HIGHLAND, UTAH

## BALANCE SHEET

### GOVERNMENTAL FUNDS

JUNE 30, 2006

	Governmental-type Activities					
	General	Capital Projects Parks	Capital Projects Building	Capital Projects Northwest	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash and Cash Equivalents	\$ 996,895	\$ 320,206	\$ 4,136,694	\$ 1,410,312	\$ 43,856	\$ 6,907,963
Accounts Receivable	40,365	-	-	-	42,085	82,450
Taxes Receivable	1,411,938	-	-	-	-	1,411,938
Due from Other Fund	114,413	-	-	-	-	114,413
Restricted Cash	139,670	1,565,936	807,251	32,632	518,985	3,064,474
 TOTAL ASSETS	 <u>\$ 2,703,281</u>	 <u>\$ 1,886,142</u>	 <u>\$ 4,943,945</u>	 <u>\$ 1,442,944</u>	 <u>\$ 604,926</u>	 <u>\$ 11,581,238</u>
 <b>LIABILITIES AND FUND EQUITY</b>						
<b>LIABILITIES</b>						
Accounts Payable	\$ 196,690	\$ 26,134	\$ 4,279	\$ 46,446	\$ 5,627	\$ 279,176
Due to Other Fund	-	-	-	-	28,257	28,257
Development Bonds Held	436,479	-	-	-	-	436,479
Contingent Liability	-	20,000	-	-	-	20,000
Deferred Revenue	1,201,636	-	-	-	-	1,201,636
Compensated Absences	69,578	-	-	-	-	69,578
 TOTAL LIABILITIES	 <u>1,904,383</u>	 <u>46,134</u>	 <u>4,279</u>	 <u>46,446</u>	 <u>33,884</u>	 <u>2,035,126</u>
 <b>FUND BALANCE</b>						
Reserved						
Impact Fees	-	1,565,936	807,251	32,632	328,327	2,734,146
Class C Roads	118,170	-	-	-	190,658	308,828
Designated						
Community Improvements	21,500	250,000	-	-	-	271,500
Unreserved	659,228	24,072	4,132,415	1,363,866	52,057	6,231,638
 TOTAL FUND EQUITY	 <u>798,898</u>	 <u>1,840,008</u>	 <u>4,939,666</u>	 <u>1,396,498</u>	 <u>571,042</u>	 <u>9,546,112</u>
 TOTAL LIABILITIES AND FUND EQUITY	 <u>\$ 2,703,281</u>	 <u>\$ 1,886,142</u>	 <u>\$ 4,943,945</u>	 <u>\$ 1,442,944</u>	 <u>\$ 604,926</u>	 <u>\$ 11,581,238</u>

See the accompanying notes to the financial statements

**CITY OF HIGHLAND, UTAH**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS**  
**BALANCE SHEET TO THE STATEMENT OF NET ASSETS**  
**JUNE 30, 2006**

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**TOTAL GOVERNMENTAL FUNDS BALANCES** **\$ 9,546,112**

*Amounts reported for governmental activities in the statement of net assets are different because*

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. **31,842,107**

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. **1,201,636**

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. **(607,220)**

**TOTAL NET ASSETS OF GOVERNMENTAL ACTIVITIES** **\$ 41,982,635**

See the accompanying notes to the financial statements

# CITY OF HIGHLAND, UTAH

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	Governmental-type Activities					Total Governmental Funds
	General	Capital Projects Parks	Capital Projects Building	Capital Projects Northwest	Nonmajor Governmental Funds	
<b>REVENUES</b>						
Taxes	\$ 2,956,905	\$ -	\$ -	\$ -	\$ -	\$ 2,956,905
Licenses and Permits	790,775	-	-	-	-	790,775
Intergovernmental	261,755	32,408	-	-	109,903	404,066
Charges for Services	929,234	19,506	-	72,468	209,323	1,230,531
Fines and Forfeitures	283,769	-	-	-	-	283,769
Interest	154,475	57,326	126,100	38,212	5,808	381,921
Miscellaneous	64	-	-	-	-	64
<b>TOTAL REVENUES</b>	<b>5,376,977</b>	<b>109,240</b>	<b>126,100</b>	<b>110,680</b>	<b>325,034</b>	<b>6,048,031</b>
<b>EXPENDITURES</b>						
General Government	934,249	-	15,987	-	252,275	1,202,511
Public Safety	1,511,554	-	-	-	-	1,511,554
Streets and Public Works	359,375	-	-	46,427	139,140	544,942
Parks and Recreation	338,020	226,882	-	-	-	564,902
Cemetery	124,664	-	-	-	-	124,664
Garbage	440,244	-	-	-	-	440,244
Debt Service						
Principal	145,378	92,907	-	-	-	238,285
Interest and Finance Charges	33,520	7,093	-	-	-	40,613
Capital Outlay	69,508	676,887	190,660	-	-	937,055
<b>TOTAL EXPENDITURES</b>	<b>3,956,512</b>	<b>1,003,769</b>	<b>206,647</b>	<b>46,427</b>	<b>391,415</b>	<b>5,604,770</b>
<b>EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES</b>	<b>1,420,465</b>	<b>(894,529)</b>	<b>(80,547)</b>	<b>64,253</b>	<b>(66,381)</b>	<b>443,261</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Impact Fees	-	917,659	306,279	232,013	392,040	1,847,991
Transfers from Other Funds	-	100,000	931,177	-	135,000	1,166,177
Transfers to Other Funds	(1,166,177)	-	-	-	-	(1,166,177)
<b>EXCESS (DEFICIT) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND USES</b>	<b>254,288</b>	<b>123,130</b>	<b>1,156,909</b>	<b>296,266</b>	<b>460,659</b>	<b>2,291,252</b>
<b>BEGINNING FUND BALANCE</b>	<b>566,133</b>	<b>1,716,878</b>	<b>3,782,757</b>	<b>1,100,232</b>	<b>88,860</b>	<b>7,254,860</b>
<b>PRIOR PERIOD ADJUSTMENTS</b>	<b>(21,523)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>21,523</b>	<b>-</b>
<b>ENDING FUND BALANCE</b>	<b>\$ 798,898</b>	<b>\$ 1,840,008</b>	<b>\$ 4,939,666</b>	<b>\$ 1,396,498</b>	<b>\$ 571,042</b>	<b>\$ 9,546,112</b>

See the accompanying notes to the financial statements

**CITY OF HIGHLAND, UTAH**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2006**

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**EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER  
EXPENDITURES AND USES - TOTAL GOVERNMENTAL FUNDS** **\$ 2,291,252**

*Amounts reported for governmental activities in the statement of  
activities are different because*

Property taxes will not be collected for several months after the City's  
fiscal year end. They are not considered to be available revenues in  
the governmental funds. Deferred property tax revenues increased  
by this amount this year. **434,436**

Governmental funds report capital outlays as expenditures. In the  
statement of activities the cost of those assets is allocated over their  
estimated useful lives as depreciation expense. This is the amount  
by which depreciation and transfers exceeded capital outlays in the  
current period. **25,373,928**

Issuance of long-term debt provides current financial resources to  
governmental funds. The repayment of the principal of long-term  
debt consumes the current financial resources of governmental funds.  
This amount is the net difference in the treatment of long-term debt  
and related items. **238,285**

Some revenues and expenses reported in the statement of activities do  
not add to or require the use of current financial resources and, therefore,  
are not reported as revenues or expenditures in the governmental funds. **(22,290)**

**CHANGE IN NET ASSETS OF GOVERNMENTAL FUNDS** **\$ 28,315,611**

See the accompanying notes to the financial statements



**CITY OF HIGHLAND, UTAH**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Budgeted Amounts</u>			Variance
	<u>Original</u>	<u>Final</u>	<u>Actual</u> <u>Amounts</u>	<u>with Final</u> <u>Budget</u>
<b><u>REVENUES</u></b>				
Taxes	\$ 2,523,000	\$ 2,820,000	\$ 2,956,905	\$ 136,905
Licenses and Permits	719,200	709,725	790,775	81,050
Intergovernmental	224,200	224,200	261,755	37,555
Charges for Services	834,140	1,014,140	929,234	(84,906)
Fines and Forfeitures	242,000	242,000	283,769	41,769
Interest	50,000	96,000	154,475	58,475
Miscellaneous	-	-	64	64
 TOTAL REVENUES	 <u>4,592,540</u>	 <u>5,106,065</u>	 <u>5,376,977</u>	 <u>270,912</u>
 <b><u>EXPENDITURES</u></b>				
General Government	942,781	944,351	934,249	10,102
Public Safety	1,425,500	1,517,000	1,511,554	5,446
Streets and Public Works	368,900	403,900	400,806	3,094
Parks and Recreation	354,366	351,866	349,612	2,254
Cemetery	154,263	145,863	141,149	4,714
Garbage	371,908	396,908	440,244	(43,336)
Debt Service				
Principal	146,000	146,000	145,378	622
Interest and Finance Charges	<u>34,000</u>	<u>34,000</u>	<u>33,520</u>	<u>480</u>
 TOTAL EXPENDITURES	 <u>3,797,718</u>	 <u>3,939,888</u>	 <u>3,956,512</u>	 <u>(16,624)</u>
 EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES				
	794,822	1,166,177	1,420,465	254,288
 <b><u>OTHER FINANCING SOURCES (USES)</u></b>				
Transfers to Other Funds	<u>(645,000)</u>	<u>(1,166,177)</u>	<u>(1,166,177)</u>	<u>-</u>
 EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND USES				
	149,822	-	254,288	254,288
 FUND BALANCE ALLOCATION	 <u>(149,822)</u>	 <u>-</u>	 <u>-</u>	 <u>-</u>
 EXCESS OF RESOURCES OVER CHARGES TO APPROPRIATIONS				
	\$ -	\$ -	\$ 254,288	\$ 254,288

See the accompanying notes to the financial statements

**CITY OF HIGHLAND, UTAH**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2006**

	Business-type Activities - Enterprise Funds				
	Water	Sewer	Secondary Water	Storm Sewer	Total Enterprise Funds
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and Cash Equivalents	\$ 424,945	\$ 2,062,095	\$ 748,018	\$ 273,355	3,508,413
Accounts Receivable, Net of Allowance for Uncollectibles	83,006	40,575	55,863	34,048	213,492
Other Receivables	-	5,441	-	-	5,441
<b>TOTAL CURRENT ASSETS</b>	<b>507,951</b>	<b>2,108,111</b>	<b>803,881</b>	<b>307,403</b>	<b>3,727,346</b>
<b>NONCURRENT ASSETS</b>					
Restricted Cash					
Cash and Cash Equivalents	-	798,335	-	-	798,335
Capital Assets					
Land	107,132	-	277,450	-	384,582
Water Shares	426,154	-	12,700,424	-	13,126,578
Buildings and Structures	493,622	-	635,002	-	1,128,624
Improvements	6,342,206	6,772,353	11,590,732	1,459,139	26,164,430
Machinery and Equipment	275,293	45,480	45,378	134,995	501,146
Less Accumulated Depreciation	(1,795,609)	(1,009,729)	(1,665,647)	(68,393)	(4,539,378)
<b>TOTAL NONCURRENT ASSETS</b>	<b>5,848,798</b>	<b>6,606,439</b>	<b>23,583,339</b>	<b>1,525,741</b>	<b>37,564,317</b>
<b>TOTAL ASSETS</b>	<b>6,356,749</b>	<b>8,714,550</b>	<b>24,387,220</b>	<b>1,833,144</b>	<b>41,291,663</b>
<b>LIABILITIES</b>					
<b>CURRENT LIABILITIES</b>					
Accounts Payable	8,897	114,586	13,830	1,126	138,439
Accrued Interest Payable	-	-	260,236	-	260,236
Due to Other Fund	-	-	-	86,156	86,156
Compensated Absences	14,901	5,848	791	3,487	25,027
Current Portion of Long-Term Debt	-	-	360,000	-	360,000
<b>TOTAL CURRENT LIABILITIES</b>	<b>23,798</b>	<b>120,434</b>	<b>634,857</b>	<b>90,769</b>	<b>869,858</b>
<b>NONCURRENT LIABILITIES</b>					
Bonds Payable	-	-	4,293,461	-	4,293,461
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>-</b>	<b>-</b>	<b>4,293,461</b>	<b>-</b>	<b>4,293,461</b>
<b>TOTAL LIABILITIES</b>	<b>23,798</b>	<b>120,434</b>	<b>4,928,318</b>	<b>90,769</b>	<b>5,163,319</b>
<b>NET ASSETS</b>					
Investment in Capital Assets, Net of Related Debt	5,848,798	5,808,104	18,669,642	1,525,741	31,852,285
Restricted					
Community Improvements	-	798,335	-	-	798,335
Unrestricted	484,153	1,987,677	789,260	216,634	3,477,724
<b>TOTAL NET ASSETS</b>	<b>\$ 6,332,951</b>	<b>\$ 8,594,116</b>	<b>\$ 19,458,902</b>	<b>\$ 1,742,375</b>	<b>\$ 36,128,344</b>

See the accompanying notes to the financial statements

# CITY OF HIGHLAND, UTAH

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	Business-type Activities - Enterprise Funds				Total Enterprise Funds
	Water	Sewer	Secondary Water	Storm Sewer	
<b><u>OPERATING REVENUES</u></b>					
Charges for Services	\$ 606,894	\$ 618,059	\$ 612,636	\$ 212,261	\$ 2,049,850
Connection Fees	508,009	-	-	-	508,009
Miscellaneous	24,689	2,078	-	-	26,767
<b>TOTAL OPERATING REVENUES</b>	<b>1,139,592</b>	<b>620,137</b>	<b>612,636</b>	<b>212,261</b>	<b>2,584,626</b>
<b><u>OPERATING EXPENSES</u></b>					
Salaries and Benefits	243,300	99,336	67,044	68,575	478,255
Operations	177,803	453,068	268,802	24,703	924,376
Depreciation	112,581	120,510	284,804	18,298	536,193
<b>TOTAL OPERATING EXPENSES</b>	<b>533,684</b>	<b>672,914</b>	<b>620,650</b>	<b>111,576</b>	<b>1,938,824</b>
<b>OPERATING INCOME (LOSS)</b>	<b>605,908</b>	<b>(52,777)</b>	<b>(8,014)</b>	<b>100,685</b>	<b>645,802</b>
<b><u>NON-OPERATING REVENUES (EXPENSES)</u></b>					
Impact Fees	-	645,276	394,723	-	1,039,999
Interest Income	3,831	122,278	62,587	11,464	200,160
Interest Expense	-	(56,049)	(283,185)	-	(339,234)
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>3,831</b>	<b>711,505</b>	<b>174,125</b>	<b>11,464</b>	<b>900,925</b>
<b>INCOME BEFORE CONTRIBUTIONS AND TRANSFERS</b>	<b>609,739</b>	<b>658,728</b>	<b>166,111</b>	<b>112,149</b>	<b>1,546,727</b>
<b><u>CONTRIBUTIONS AND TRANSFERS</u></b>					
Capital Contributions	2,205,128	2,100,734	1,150,227	1,093,748	6,549,837
<b>TOTAL CONTRIBUTIONS AND TRANSFERS</b>	<b>2,205,128</b>	<b>2,100,734</b>	<b>1,150,227</b>	<b>1,093,748</b>	<b>6,549,837</b>
<b>CHANGE IN NET ASSETS</b>	<b>2,814,867</b>	<b>2,759,462</b>	<b>1,316,338</b>	<b>1,205,897</b>	<b>8,096,564</b>
<b>TOTAL NET ASSETS AT BEGINNING OF YEAR</b>	<b>3,518,084</b>	<b>5,834,654</b>	<b>18,142,564</b>	<b>536,478</b>	<b>28,031,780</b>
<b>TOTAL NET ASSETS AT END OF YEAR</b>	<b>\$ 6,332,951</b>	<b>\$ 8,594,116</b>	<b>\$ 19,458,902</b>	<b>\$ 1,742,375</b>	<b>\$ 36,128,344</b>

See the accompanying notes to the financial statements

**CITY OF HIGHLAND, UTAH**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	Business-type Activities - Enterprise Funds				Total Enterprise Funds
	Water	Sewer	Secondary Water	Storm Sewer	
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>					
Receipts from Customers	\$ 1,129,657	\$ 613,879	\$ 615,863	\$ 217,134	\$ 2,576,533
Payments to Suppliers	(170,905)	(399,920)	(256,074)	(23,577)	(850,476)
Payments to Employees	(228,399)	(93,488)	(66,253)	(65,088)	(453,228)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b><u>730,353</u></b>	<b><u>120,471</u></b>	<b><u>293,536</u></b>	<b><u>128,469</u></b>	<b><u>1,272,829</u></b>
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>					
Impact Fees	-	645,276	394,723	-	1,039,999
Acquisition of Capital Assets	(518,884)	(35,250)	(320,740)	(173,453)	(1,048,327)
Bond Payments	-	(1,600,000)	(295,461)	-	(1,895,461)
Interest Expense	-	(82,716)	(278,134)	-	(360,850)
<b>NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b><u>(518,884)</u></b>	<b><u>(1,072,690)</u></b>	<b><u>(499,612)</u></b>	<b><u>(173,453)</u></b>	<b><u>(2,264,639)</u></b>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>					
Interest Income	<u>3,831</u>	<u>122,278</u>	<u>62,587</u>	<u>11,464</u>	<u>200,160</u>
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b><u>3,831</u></b>	<b><u>122,278</u></b>	<b><u>62,587</u></b>	<b><u>11,464</u></b>	<b><u>200,160</u></b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>215,300</b>	<b>(829,941)</b>	<b>(143,489)</b>	<b>(33,520)</b>	<b>(791,650)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b><u>209,645</u></b>	<b><u>3,690,371</u></b>	<b><u>891,507</u></b>	<b><u>306,875</u></b>	<b><u>5,098,398</u></b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 424,945</u></b>	<b><u>\$ 2,860,430</u></b>	<b><u>\$ 748,018</u></b>	<b><u>\$ 273,355</u></b>	<b><u>\$ 4,306,748</u></b>

See the accompanying notes to the financial statements

**CITY OF HIGHLAND, UTAH**  
**STATEMENT OF CASH FLOWS (CONTINUED)**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	Business-type Activities - Enterprise Funds				
	Water	Sewer	Secondary Water	Storm Sewer	Total Enterprise Funds
<b><u>RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES</u></b>					
Operating Income (Loss)	\$ 605,908	\$ (52,777)	\$ (8,014)	\$ 100,685	\$ 645,802
Adjustments					
Depreciation	112,581	120,510	284,804	18,298	536,193
Changes in Assets and Liabilities					
Accounts Receivable, Net	(9,935)	(11,961)	3,227	4,873	(13,796)
Other Receivables	-	5,703	-	-	5,703
Accounts Payable	6,898	53,148	12,728	1,126	73,900
Compensated Absences	14,901	5,848	791	3,487	25,027
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b><u>\$ 730,353</u></b>	<b><u>\$ 120,471</u></b>	<b><u>\$ 293,536</u></b>	<b><u>\$ 128,469</u></b>	<b><u>\$ 1,272,829</u></b>
 Noncash Financing and Investing Transactions					
Developer Contributions of Fixed Assets	\$ 2,205,128	\$ 2,100,734	\$ 1,150,227	\$ 1,093,748	\$ 6,549,837

See the accompanying notes to the financial statements

# **HIGHLAND CITY, UTAH**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **JUNE 30, 2006**

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of Highland City, Utah (City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant of the City's accounting policies.

##### **Financial Reporting Entity**

Highland City was incorporated in 1977 under the laws of the State of Utah. The City is a municipal corporation governed by an elected five-member Council and Mayor. The City provides municipal services under the following organizational structure:

General Government: Mayor and City Council, City Administrator, Justice Court, Finance, Attorney, Treasurer and Recorder

Public Safety: Police, Fire and Emergency Medical Services, (through Lone Peak Public Safety District), Engineer, Building Inspection, and Animal Control

Public Works: Streets, Water, Sewer, Garbage, Pressurized Irrigation and Storm Drains

Parks and Recreation: Parks, Cemetery and Recreation

As required by GAAP, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The City is considered to be financially accountable for an organization if the City appoints a voting majority of that organization or there is a potential for that organization to provide specific financial benefits to or impose specific financial burdens on the City. The City is also considered to be financially accountable for an organization if that organization is fiscally dependent (i.e., it is unable to adopt its budget, levy taxes, set rates or charges, or issue bonded debt without approval from the City). The component unit discussed below is included as part of the City's reporting entity as a blended component unit.

The Highland City Open Space Special Service District (the District) was established to provide recreation services, including the operation and maintenance of parks, open space and trails within certain areas of the City. The District is governed by a board of trustees composed of the City Mayor and members of the City Council. Although it is a legally separate entity from the City, the District is reported as if it were part of the primary government because of the City's ability to impose its will upon the operations of the District. The District is included in these financial statements as the Open Space Trust Fund. Separate financial statements are not issued for the District.

##### **Government-wide and Fund Financial Statements**

The government-wide financial statements (statement of net assets and statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and inter-governmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

## NOTE 1 - (CONTINUED)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include 1) charges to customers who directly benefit from goods or services provided by a given function or activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

### Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Financial resources used to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term debt of the City are reported as a reduction of the related liability, rather than as an expenditure in the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter (within sixty days) to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt-service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Sales taxes, use taxes, franchise taxes, and earned but unreimbursed state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Property taxes are measurable as of the date levied (assessed) and are recognized as revenues when they become available. Available means when due, or past due, and received within the current period or collected soon enough thereafter to be used to pay liabilities of the current period. All other revenues are considered to be measurable and available only when the City receives cash.

The City reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund.

The *capital projects park fund* accounts for the acquisition or construction of major capital facilities of the City (other than those financed by proprietary funds).

## NOTE 1 - (CONTINUED)

The *capital projects building fund* accounts for the construction of buildings of the City.

The *capital projects northwest fund* accounts for capital project activities in the Northwest of the City.

The City reports the following major proprietary funds:

The *water fund* accounts for the activities of the City's water production, treatment and distribution operations.

The *sewer fund* accounts for the activities of the City's sewer treatment operations.

The *secondary water fund* accounts for the activities of the City's pressurized irrigation distribution operations.

The *storm sewer fund* accounts for the activities of the City's efforts to provide storm drains.

Activities of these four funds include administration, operations and maintenance of the water, sewer, pressurized irrigation and storm drain systems, and billing and collection. The funds also account for the accumulation of resources for, and the payment of, long-term debt principal and interest for all enterprise fund debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted, if necessary, to ensure the integrity of the funds.

The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of all enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

### Assets, Liabilities and Fund Equity

#### A. Cash and cash equivalents

Cash includes cash on hand, demand deposits with banks and other financial institutions, and deposits in other types of accounts or cash management pools that have the general characteristics of demand deposit accounts. City policy allows for the investment of funds in time certificates of deposit with federally insured depositories, investment in the Utah Public Treasurer's Investment Fund (Fund) and other investments allowed by the State of Utah's Money Management Act. Investments are reported at fair value. The Fund operates in accordance with state laws and regulations. The reported value of the City's cash in the Fund is the same as the fair value of the Fund shares.



## NOTE 1 - (CONTINUED)

Cash equivalents are defined as short-term highly liquid investments that are both readily convertible to known amounts of cash and so near maturity that they present insignificant risk of changes in value because of changes in interest rates. Investments with maturities of three months or less, when purchased, meet this definition.

### B. Restricted assets

Cash which is restricted to a particular use due to statutory, budgetary or bonding requirements is classified as "restricted cash" on the statement of net assets and on the balance sheets. Restricted cash would be spent first and then unrestricted resources would be used when the restricted funds are depleted.

### C. Capital assets

Capital assets, which include land, buildings, improvements, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the proprietary fund financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost, if purchased, and at fair market value at the date of the gift, if donated.

Major additions are capitalized, while maintenance and repairs which do not improve or extend the life of the respective assets are charged to expense.

Capital asset depreciation is recognized using the straight-line method over the estimated useful lives as follows:

<u>Classification</u>	<u>Range of Lives</u>
Buildings and structures	20-50 years
Improvements and infrastructure	10-50 years
Machinery, equipment and vehicles	5-15 years

### D. Compensated absences

Accumulated unpaid vacation is accrued as incurred based on the years of service for each employee. Vacation is accumulated on a monthly basis. Proprietary funds expense all accrued vacation amounts when incurred. Governmental funds report an expenditure as the vacation is paid. Employees may accumulate unlimited vacation. An employee who is separated from employment may be compensated for all accrued vacation. The accumulated sick leave is earned at a rate of one day per month. Sick pay amounts are charged to expenditures when incurred. Employees may accumulate up to 65 days of sick leave. Employees will not be paid for any accumulated sick leave at separation from employment.

## **NOTE 1 - (CONTINUED)**

### **E. Long-term liabilities**

In the government-wide financial statements, and in the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are recorded net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and are amortized over the life of the related debt. In the fund financial statements, governmental fund types recognize bond premium and discounts, as well as debt issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### **F. Fund equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Designations of unreserved fund balances are not required by law or accounting principles, but are further classifications of fund equity to identify funds which are earmarked by the City's management for specific purposes. These represent tentative management plans that are subject to change.

### **G. Net assets**

Net assets represents the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

### **Inter-Fund Transactions**

During the course of normal operations, the City has transactions between funds to subsidize operations in certain funds, to allocate administrative costs, to construct assets, to distribute grant proceeds, etc. . These transactions are generally reflected as operating transfers, which are transfers from a fund authorized to receive certain revenues to the fund through which the resources are to be expended.

### **Deferred Revenue**

Property taxes due November 30, 2006 and unpaid from 2005 are shown as deferred revenue.

## NOTE 1 - (CONTINUED)

### Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures and expenses during the reporting period. Actual results could differ from those estimates.

## NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

### Explanation of certain differences between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net assets of governmental activities in the government-wide statement of net assets. This difference primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets.

#### Capital Asset Differences

When capital assets (land, buildings, improvements and equipment) are purchased or constructed for use in governmental fund activities, the costs of those assets are reported as expenditures in the governmental funds. However, those costs are reported as capital assets in the statement of net assets. The details of these differences are presented below:

Land	\$ 19,892,534
Buildings and Structures	1,561,155
Improvements and Infrastructure	11,267,610
Machinery, Equipment and Vehicles	700,877
Less Accumulated Depreciation	<u>(1,580,069)</u>
Net Capital Asset Difference	<u>\$ 31,842,107</u>

#### Other Long-Term Asset Differences

Property taxes due in November 2006 are reported as deferred revenues in the governmental fund balance sheet. However, they are reported as current year revenues in the statement of net assets. The details of these differences are presented below:

Property taxes collectible in November 2006	<u>\$ 1,201,636</u>
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#### Long-Term Liability Differences

Long-Term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund balance sheet. All liabilities (both current and long-term) are reported in the statement of net assets. The details of these differences are presented below:

Loans Payable	\$ (472,393)
Accrued Interest	(11,639)
Long-Term Compensated Absences	<u>(123,188)</u>
Total Long-Term Liability Difference	<u>\$ (607,220)</u>

## NOTE 2 - (CONTINUED)

### Explanation of certain differences between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental fund financial statements include a reconciliation between changes in fund balances in the governmental funds and changes in net assets in the government-wide statement of activities. This difference primarily results from the long-term economic focus of the statement of activities versus the current financial resource focus of the governmental fund financial statements.

#### Capital Outlay and Depreciation Differences

Capital outlays are reported as expenditures in the statement of revenues, expenditures and changes in fund balances. They are reported as capital assets, with the costs allocated over the useful lives of the assets, as depreciation, in the statement of activities. The details of these differences are reported below:

Capital Outlay	\$ 937,056
Developer Contributions	24,633,466
Depreciation Expense	<u>(196,594)</u>
Net Difference	<u>\$25,373,928</u>

#### Long-Term Debt Issuance and Repayment Differences

When long-term debt is issued it is reported as an other financing source. Repayments are reported as expenditures in the statement of revenues, expenditures and changes in fund balance. Issuance of debt is reported as a long-term liability and repayments are reported as reductions of those liabilities in the statement of activities. The details of these differences are reported below:

Principal Repayments on Loans Payable	\$ <u>238,285</u>
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#### Other Revenue and Expense Differences

The change in long-term compensated absences and accrued interest are not reported in the statement of revenues, expenditures and changes in fund balance. These changes are reported in the statement of activities. The detail of these differences is reported below:

Change in Long-Term Compensated Absences	\$ (23,864)
Change in Accrued Interest	<u>1,574</u>
Net Difference	<u>\$ (22,290)</u>

## NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

### Budgetary Information

Prior to the first regularly scheduled meeting of the City Council in May, the Mayor and the City Administrator submit to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and proposed sources of revenues.

### **NOTE 3 - (CONTINUED)**

Between May 1 and June 22, the City Council reviews and adjusts the proposed budget. On or before June 22, a public hearing is held and the budget is legally adopted through passage of a resolution, unless a property tax increase is proposed. If a property tax increase is proposed, a hearing must be held on or before August 17, which does not conflict with other taxing entities that have proposed a property tax increase. At this time the final balanced budget is adopted.

Under Utah State law, the City's budget establishes maximum legal authorization for expenditures during the fiscal year. Expenditures are not to exceed the budgeted amounts, including revisions, except as allowed by the code for certain events.

The City Administrator has the authority to transfer budget appropriations within and between any divisions of any budgetary fund. The City Council has the authority to transfer budget appropriations between individual budgetary funds by resolution.

A public hearing must be held to increase the total appropriations of any one governmental fund type; however, after the original public hearing, operating and capital budgets of proprietary fund types may be increased by resolution without an additional hearing.

Annual budgets for the general fund, all debt service funds and capital projects funds were legally adopted by the City and are prepared on the modified-accrual method of accounting.

Although Utah State law requires the initial preparation of budgets for all City funds (both governmental and proprietary), it only requires the reporting of comparisons of actual results to budgets for the general fund and any major special revenue funds.

#### **Tax Revenues**

Property taxes are collected by the County Treasurer and remitted to the City in two to three installments in November, December, and a final settlement in the first quarter of the calendar year. Taxes are levied and are due and payable on November 1<sup>st</sup> and are delinquent after November 30<sup>th</sup> of each year, at which time they become liens if not paid. An accrual of uncollected current and prior year's property taxes beyond that which was received within 60 days after the fiscal year end has not been made, as the amounts are not deemed to be material.

Sales taxes are collected by the Utah State Tax Commission and remitted to the City monthly. An accrual has been made for all taxes received by the State for the period ended June 30<sup>th</sup> and thus due and payable to the City.

Franchise taxes are charged to various utility companies doing business with the City including telephone, cable television, gas utility, and electric utility companies. The fees are remitted on a monthly, quarterly, or annual basis. An accrual has been made for all fees due and payable to the City at June 30<sup>th</sup>.

### **NOTE 4 - DEPOSITS AND INVESTMENTS**

The City maintains a cash and investment pool that is available for use by all funds. Cash includes amounts in demand deposits as well as time deposits. Investments are stated at cost or amortized cost, which approximates fair value. Each fund's portion of this pool is displayed on the combined balance sheet as "Cash and Cash Equivalents" which also includes cash accounts that are separately held by several of the City's funds. Deposits are not collateralized nor are they required to be by State statute.

## NOTE 4 - (CONTINUED)

Deposits and investments for City government are governed by the Utah Money Management Act (*Utah Code Annotated*, Title 51, Chapter 7) (The Act) and by rules of the Utah Money Management Council (the Council). Following are discussions of the City's exposure to various risks related to its cash management activities.

### Custodial Credit Risk

**Deposits.** Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be recovered. The City's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of the City to be in a *qualified depository*, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council. As of June 30, 2006, \$137,178 of the City's bank balances of \$237,178 were uninsured and uncollateralized.

### Credit Risk

Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The City's policy for limiting the credit risk of investments is to comply with the Money Management Act. The Act requires investment transactions to be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities. Permitted investments include deposits of qualified depositories; repurchase agreements; commercial paper that is classified as "first-tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poors; bankers acceptances; obligations of the U.S. Treasury and U.S. government sponsored enterprises; bonds and notes of political subdivisions of the State of Utah; fixed rate corporate obligations and variable rate securities rated "A" or higher by two nationally recognized statistical rating organizations as defined in the Act.

The City government is authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subjected to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses net of administration fees, of the PTIF are allocated based upon the participants' average daily balances.

The following are the City's investments at June 30, 2006:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
State of Utah Public Treasurer's Investment Fund (PTIF)	\$ 14,209,868	\$ 14,209,868	\$ _____	\$ _____	\$ _____

#### NOTE 4 - (CONTINUED)

The deposits and investments described above are included on the statement of net assets as per the following reconciliation:

Deposits	\$ 69,317
Investments	<u>14,209,868</u>
Total	<u>\$ 14,279,185</u>
Cash and Cash Equivalents	\$ 10,437,876
Restricted Cash and Cash Equivalents	<u>3,841,309</u>
Total	<u>\$ 14,279,185</u>

#### NOTE 5 - RECEIVABLES

Accounts receivable and the associated allowances for doubtful accounts at June 30, 2006 are presented in the schedule below.

Property taxes are levied on January 1 of 2006, are due in November of 2006, and are budgeted for the 2006 fiscal year. Even though they are not intended to fund the 2006 fiscal year, they must be recognized as an asset because the City has an enforceable claim to the revenue. The property taxes that have been remitted to the City within 60 days of the end of the current fiscal period have been recognized as revenue. The uncollected, measurable amounts have been accrued as deferred revenue.

Franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other items are considered to be measurable and available only when cash is received by the City.

The following is a summary of receivables at June 30, 2006:

	Governmental Activities	Business-type Activities	Total
Accounts Receivable	\$ 63,013	\$ 234,493	\$ 297,506
Allowance for Doubtful Accounts	(4,000)	(21,000)	(25,000)
Property Taxes Receivable	1,218,237	-	1,218,237
Sales Taxes Receivable	112,737	-	112,737
Class C Road Receivable	78,120	-	78,120
Franchise Taxes Receivable	26,281	-	26,281
Other Receivables	-	5,440	5,440
	<u>\$ 1,494,388</u>	<u>\$ 218,933</u>	<u>\$ 1,713,321</u>

## NOTE 6 - CAPITAL ASSETS

The following schedule presents the capital activity of the governmental activities for the year ended June 30, 2006.

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Capital Assets not being Depreciated</b>				
Land	\$ 3,277,129	\$ 16,615,405	\$ -	\$ 19,892,534
<b>Capital Assets being Depreciated</b>				
Buildings and Structures	1,424,465	136,690	-	1,561,155
Improvements and Infrastructure	2,501,685	8,765,925	-	11,267,610
Machinery, Equipment and Vehicles	<u>648,375</u>	<u>52,502</u>	<u>-</u>	<u>700,877</u>
<b>Total</b>	<b>7,851,654</b>	<b>25,570,522</b>	<b>-</b>	<b>33,422,176</b>
<b>Less Accumulated Depreciation</b>	<b><u>(1,383,475)</u></b>	<b><u>(196,594)</u></b>	<b><u>-</u></b>	<b><u>(1,580,069)</u></b>
<b>Governmental Activities Capital Assets, Net</b>	<b><u>\$ 6,468,179</u></b>	<b><u>\$ 25,373,928</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 31,842,107</u></b>

The following schedule presents the capital activity of the business-type activities for the year ended June 30, 2006.

<u>Business-type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Capital Assets not being Depreciated</b>				
Land	\$ 384,582	\$ -	\$ -	\$ 384,582
Water Shares	13,126,578	-	-	13,126,578
Construction in Progress	572,071	-	(572,071)	-
<b>Capital Assets being Depreciated</b>				
Buildings and Structures	403,376	725,248	-	1,128,624
Improvements and Infrastructure	18,777,634	6,814,725	572,071	26,164,430
Machinery, Equipment and Vehicles	<u>442,956</u>	<u>58,190</u>	<u>-</u>	<u>501,146</u>
<b>Total</b>	<b>33,707,197</b>	<b>7,598,163</b>	<b>-</b>	<b>41,305,360</b>
<b>Less Accumulated Depreciation</b>	<b><u>(4,003,187)</u></b>	<b><u>(536,191)</u></b>	<b><u>-</u></b>	<b><u>(4,539,378)</u></b>
<b>Business-type Activities Capital Assets, Net</b>	<b><u>\$ 29,704,010</u></b>	<b><u>\$ 7,061,972</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 36,765,982</u></b>



## NOTE 6 - (CONTINUED)

Depreciation was charged to the functions/programs of the primary government as follows:

<b>Government Activities</b>	
General Government	\$ 27,759
Streets and Public Works	116,053
Parks and Recreation	41,981
Cemetery	<u>10,801</u>
<b>Total Depreciation Expense-Governmental Activities</b>	<b><u>\$ 196,594</u></b>
<b>Business-type Activities</b>	
Water	\$ 112,581
Sewer	120,510
Pressurized Irrigation	284,804
Storm Drain	<u>18,298</u>
<b>Total Depreciation Expense-Business-type Activities</b>	<b><u>\$ 536,193</u></b>

## NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

The following is a summary of accounts payable and accrued expenses at June 30, 2006:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Accounts Payable	\$ 279,176	\$ 138,439	\$ 417,615
Accrued Interest Payable	11,639	260,236	271,875
Developer Bonds Payable	<u>436,479</u>	<u>-</u>	<u>436,479</u>
	<b><u>\$ 727,294</u></b>	<b><u>\$ 398,675</u></b>	<b><u>\$ 1,125,969</u></b>

## NOTE 8 - COMMITMENTS AND CONTINGENCIES

The City is involved in various lawsuits arising in the normal course of business, including claims for property damage, personal injury and civil rights violations, and disputes over development fees. The policy of the City is to vigorously defend all claims against the City. The insurance company covers most costs to defend the City against claims. However, the City has accrued a contingent liability to cover potential losses which may arise from lawsuits and claims which may not be fully covered by insurance. At June 30, 2006, \$20,000 remained on the books for potential losses.

## NOTE 9 - LONG-TERM DEBT

The following is a summary of changes in Governmental Activities long-term debt of the City for the year ended June 30, 2006:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b><u>Governmental Activities</u></b>					
Loans Payable					
1998 Cemetery Mortgage	\$ 440,441	\$ -	\$ (52,472)	\$ 387,969	\$ 55,620
1998 Park Mortgage	270,237	-	(185,813)	84,424	84,424
Compensated Absences	<u>170,420</u>	<u>22,346</u>	<u>-</u>	<u>192,766</u>	<u>69,578</u>
	<b><u>\$ 881,098</u></b>	<b><u>\$ 22,346</u></b>	<b><u>\$ (238,285)</u></b>	<b><u>\$ 665,159</u></b>	<b><u>\$ 209,622</u></b>

## NOTE 9 - (CONTINUED)

The following is a summary of changes in Business-type Activities long-term debt of the City for the year ended June 30, 2006:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b><u>Business-type Activities</u></b>					
Revenue Bonds					
1997 Sewer	\$ 1,600,000	\$ -	\$ (1,600,000)	\$ -	\$ -
General Obligation Bonds					
1996A Irrigation Water	300,000	-	(300,000)	-	-
1996B Irrigation Water	123,390	-	-	123,390	-
1998 Irrigation Refunding	5,000,000	-	(35,000)	4,965,000	360,000
Compensated Absences	-	25,027	-	25,027	25,027
	<u>\$ 7,023,390</u>	<u>\$ 25,027</u>	<u>\$ (1,935,000)</u>	5,113,417	<u>\$ 385,027</u>
Unamortized Bond Issuance Costs and Discounts				(434,929)	
				<u>\$ 4,678,488</u>	

Long-term debt and obligations payable at June 30, 2006 were as follows:

	<u>Interest Rate</u>	<u>Maturity Dates</u>	<u>Current Portion</u>	<u>Long-term Balance</u>
<b><u>Governmental Activities</u></b>				
Cemetery Mortgage (original amount—\$766,281)	6.00%	2012	\$ 55,620	\$ 332,349
Park Mortgage (original amount—\$1,205,871)	5.25%	2007	84,424	-
Compensated Absences			69,578	123,188
Total Governmental Activities Long-term Debt			<u>\$ 209,622</u>	<u>\$ 455,537</u>
<b><u>Business-type Activities</u></b>				
Irrigation Water General Obligation Bonds, Series 1996B (original amount—\$123,390)	4.00%	2018	\$ -	\$ 123,390
Irrigation General Obligation Refunding Bonds, Series 1998B (original amount— \$8,675,000)	4.00% to 4.65%	2017	360,000	4,605,000
Unamortized Bond Issuance Costs and Discounts			-	(434,929)
Compensated Absences			25,027	-
Total Business-type Activities Long-term Debt			<u>\$ 385,027</u>	<u>\$ 4,293,461</u>

## NOTE 9 - (CONTINUED)

Principal and interest requirements to retire the City's long-term obligations are as follows:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Government-Wide</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 140,044	\$ 27,710	\$ 360,000	\$ 229,631	\$ 500,044	\$ 257,341
2008	58,958	19,941	375,000	212,981	433,958	232,922
2009	62,495	16,404	395,000	175,545	457,495	191,949
2010	66,245	12,653	410,000	162,988	476,245	175,641
2011	70,219	8,679	430,000	148,988	500,219	157,667
2012-2016	74,432	4,466	2,440,000	460,065	2,514,432	464,531
2017-2018	-	-	678,390	276,475	678,390	276,475
	<u>\$ 472,393</u>	<u>\$ 89,853</u>	<u>\$ 5,088,390</u>	<u>\$ 1,666,673</u>	<u>\$ 5,560,783</u>	<u>\$ 1,756,526</u>

## NOTE 10 - RESERVED FUND EQUITY

The Class "C" Roads allotment from the state excise tax is reserved for construction and maintenance of City streets and roads. Utah State statute requires unexpended impact fees held at year-end to be reserved for future expansion in the charging department or fund. In addition, funds have been designated for various capital projects.

## NOTE 11 - RETIREMENT PLANS

### Plan Description

Highland City contributes to the Local Governmental Noncontributory Retirement System cost-sharing multiple-employer defined benefit pension plan administered by the Utah Retirement Systems (Systems). The Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement systems, 540 East 200 South Salt Lake City, Utah 84102-2099 or by calling 1-800-365-8772.

### Funding Policy

In the Local Governmental Noncontributory Retirement System, Highland City is required to contribute 11.09% of plan members' annual covered salary. The contribution requirements of the Systems are authorized by statute and specified by the Board.

Highland City's contributions to the Local Governmental Noncontributory Retirement System for the years ending June 30, 2006, 2005, and 2004 were \$85,239, \$64,307 and \$44,423 respectively. The contributions were equal to the required contributions for each year.

## NOTE 12 - DEFERRED COMPENSATION PLANS

The City sponsors a defined contribution deferred compensation plan administered by Utah Retirement Systems under the Internal Revenue Code Section 457 for some City employees covered by the State's contributory retirement plans. The plan, available to all permanent full-time City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The 457 deferred compensation monies are not available to the City or its general creditors. The City's contributions for each employee (and interest allocated to the employee's account) are fully vested in the employee's account from the date of employment. During the years ended June 30, 2006, 2005, and 2004 contributions totaling \$26,626, \$19,225, and \$16,114, respectively were made to the plan by employees and \$115,982, \$76,690 and \$58,796 respectively by the City.

The City sponsors a defined contribution deferred compensation plan administered by Utah Retirement Systems under the Internal Revenue Code Section 401(k) for some City employees covered by the State's contributory retirement plans. The plan, available to all permanent full-time City employees permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The 401(k) deferred compensation monies are not available to the City or its general creditors. The City's contributions for each employee (and interest allocated to the employee's account) are fully vested in the employee's account from the date of employment. During the years ended June 30, 2006, 2005, and 2004 contributions totaling \$24,718, \$20,372 and \$19,416, respectively were made to the plan by employees and \$48,770, \$45,058, and \$34,916 respectively by the City.

## NOTE 13 - RISK MANAGEMENT

Highland City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City joined together with other governments in the State of Utah to form the Utah Local Governments Trust (ULGT), a public entity risk pool currently operating as a common risk management and insurance program for Utah State governments. The City pays an annual premium to ULGT for its general insurance coverage.

The City also carries comprehensive general liability insurance coverage through a commercial insurance company. Settled claims from this risk type have not exceeded coverage in any of the past three fiscal years.

## NOTE 14 - OPERATING TRANSFER RECONCILIATION

The operating transfers among the funds were as follows:

	<u>In</u>	<u>Out</u>
General Fund	\$ -	\$ 1,166,177
Open Space	135,000	-
Capital Projects - Parks	100,000	-
Capital Projects - Building	931,177	-
	<u>\$ 1,166,177</u>	<u>\$ 1,166,177</u>

## NOTE 15 - INTERFUND RECEIVABLES AND PAYABLES

The City has the following interfund loans outstanding at June 30, 2006:

<u>Payable Fund</u>	<u>Amount</u>
Open Space	\$ 28,257
Storm Sewer	<u>86,156</u>
 <u>Receivable Fund</u>	
General	<u>\$ 114,413</u>

## NOTE 16 - PRIOR PERIOD ADJUSTMENTS

The City allocates to the roads capital project fund thirty percent of the Class C road allocation received. Prior period adjustments of \$21,523 were posted in the 2006 fiscal year to move thirty percent of the Class C road amount receivable at June 30, 2005 from the general fund to the roads capital project fund.

## NOTE 17 - RELATED PARTY TRANSACTIONS

The City Treasurer and the Finance Director are related through marriage as sister-in-law and brother-in-law, respectively.

## NOTE 18- SUBSEQUENT EVENTS

The City issued \$6,000,000 of sales tax revenue bonds in July 2006 to finance construction of a new City building.

**SUPPLEMENTARY INFORMATION**

**CITY OF HIGHLAND, UTAH**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**JUNE 30, 2006**

	Special Revenue Fund	Capital Projects	Total Nonmajor Governmental Funds
	Open Space Trust	General Road	
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 10,973	\$ 32,883	\$ 43,856
Accounts Receivable	18,649	23,436	42,085
Restricted Cash	-	518,985	518,985
<b>TOTAL ASSETS</b>	<b>\$ 29,622</b>	<b>\$ 575,304</b>	<b>\$ 604,926</b>
<b>LIABILITIES AND FUND EQUITY</b>			
<b>LIABILITIES</b>			
Accounts Payable	\$ -	\$ 5,627	\$ 5,627
Due to Other Fund	28,257	-	28,257
<b>TOTAL LIABILITIES</b>	<b>28,257</b>	<b>5,627</b>	<b>33,884</b>
<b>FUND BALANCE</b>			
Reserved for Impact Fees	-	328,327	328,327
Reserved for Class C Roads	-	190,658	190,658
Unreserved	1,365	50,692	52,057
<b>TOTAL FUND EQUITY</b>	<b>1,365</b>	<b>569,677</b>	<b>571,042</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 29,622</b>	<b>\$ 575,304</b>	<b>\$ 604,926</b>

**CITY OF HIGHLAND, UTAH**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	Special Revenue Fund	Capital Projects	Total Nonmajor Governmental Funds
	Open Space Trust	General Road	
<b>REVENUES</b>			
Intergovernmental	\$ -	\$ 109,903	\$ 109,903
Charges for Services	158,631	50,692	209,323
Interest	-	5,808	5,808
<b>TOTAL REVENUES</b>	<b>158,631</b>	<b>166,403</b>	<b>325,034</b>
<b>EXPENDITURES</b>			
General Government	252,275	-	252,275
Streets and Public Works	-	139,140	139,140
<b>TOTAL EXPENDITURES</b>	<b>252,275</b>	<b>139,140</b>	<b>391,415</b>
<b>EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES</b>	<b>(93,644)</b>	<b>27,263</b>	<b>(66,381)</b>
<b>OTHER FINANCING SOURCES</b>			
Impact Fees	-	392,040	392,040
Transfers From Other Funds	135,000	-	135,000
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES</b>	<b>41,356</b>	<b>419,303</b>	<b>460,659</b>
<b>BEGINNING FUND BALANCE</b>	<b>(39,991)</b>	<b>128,851</b>	<b>88,860</b>
<b>PRIOR PERIOD ADJUSTMENTS</b>	<b>-</b>	<b>21,523</b>	<b>21,523</b>
<b>ENDING FUND BALANCE</b>	<b>\$ 1,365</b>	<b>\$ 569,677</b>	<b>\$ 571,042</b>



**CITY OF HIGHLAND, UTAH**  
**SCHEDULE OF IMPACT FEES**  
**FOR THE YEAR ENDED JUNE 30, 2006**

Highland City collects parks and recreation, streets, public safety, water, sewer and pressurized irrigation impact fees. The following is a recap of the impact fees outstanding by year of collection:

Year Collected	Parks and Recreation	Streets	Public Safety	Sewer	Pressurized Irrigation
2004	\$ -	\$ -	\$ 182,406	\$ -	\$ -
2005	602,416	-	288,302	99,257	-
2006	963,520	328,327	336,543	699,078	-
Total	\$ 1,565,936	\$ 328,327	\$ 807,251	\$ 798,335	\$ -

**Northwest Annexation (NW)**

Year Collected	Streets	Sewer	Pressurized Irrigation	Water
2004	\$ -	\$ -	\$ -	\$ -
2005	-	-	-	-
2006	32,632	-	-	-
Total	\$ 32,632	\$ -	\$ -	\$ -

The following capital projects are planned to use the impact fees shown above:

Capital Project Planned	Projected Cost	Estimated Starting Date	Type of Impact Fee
Sports Complex	\$ 1,565,936	2007	Parks
Fire Station	\$ 3,500,000	2007	Public Safety
NW Holding Pond	\$ 600,000	2008	NW
Traffic-Calming Islands	\$ 50,000	2007	NW Roads
Pheasant Hollow Lift Station/Lines	\$ 500,000	2007	Sewer
Bull River Lif Station	\$ 500,000	2008	Sewer
Road Rebuild Sidewalk Projects	\$ 350,000	2008	Roads

**STATE LEGAL COMPLIANCE REPORT**

**GREG OGDEN, CPA  
1761 EAST 850 SOUTH  
SPRINGVILLE, UT 84663  
(801)489-8408**

MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITOR'S REPORT ON STATE LEGAL COMPLIANCE**

**November 6, 2006**

**The Honorable Mayor  
Members of the City Council  
Highland City, Utah**

**Council Members:**

**I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Highland City, Utah, as of and for the year ended June 30, 2006, which collectively comprise the basic financial statements and have issued my report thereon dated November 6, 2006. As part of my audit, I have audited Highland City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2006. The City received the following major State assistance programs from the State of Utah:**

**"C" Road Funds (Department of Transportation)  
Liquor Law Enforcement (State Tax Commission)**

**The City also received the following nonmajor grants which are not required to be audited for specific compliance requirements: (However, these programs were subject to testwork as part of the audit of the City's financial statements.)**

**Court Grant  
State Trail Grant  
Tree Grant**

**My audit also included testwork on the City's compliance with those general compliance requirements identified in the State of Utah Compliance Audit Guide, including:**

**Public Debt  
Cash Management  
Purchasing Requirements  
Budgetary Compliance  
Truth in Taxation and Property  
Tax Limitations  
Class C Road Funds**

**Special Districts  
Other General Issues  
Uniform Building Code Standards  
Liquor Law Enforcement  
Justice Court  
Impact Fees  
Asset Forfeiture**

**The management of Highland City is responsible for the City's compliance with all compliance requirements identified above. My responsibility is to express an opinion on compliance with those requirements based on my audit.**

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. I believe that my audit provides a reasonable basis for my opinion.

The results of my audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above which are described in the accompanying management letter. I considered these instances of noncompliance in forming my opinion on compliance, which is expressed in the following paragraph.

In my opinion, Highland City, Utah, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2006.

  
Greg Ogden,  
Certified Public Accountant

**GOVERNMENT AUDITING STANDARDS REPORT**

GREG OGDEN, CPA  
1761 EAST 850 SOUTH  
SPRINGVILLE, UT 84663  
(801)489-8408

MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

November 6, 2006

Honorable Mayor  
Members of the City Council  
Highland City, Utah

**Council Members:**

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Highland City, Utah, which collectively comprise the City's basic financial statements and have issued my report thereon dated November 6, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, Issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing my audit, I considered Highland City, Utah's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted matters involving the internal control that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the management letter under the internal controls heading.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe the reportable condition described above is not a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Highland City, Utah's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the audit committee, the City's management, others within the organization, and the City Council and is not intended to be and should not be used by anyone other than these specified parties.

  
Greg Ogden  
Certified Public Accountant

**HIGHLAND CITY, UTAH**

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**MANAGEMENT LETTER**  
**JUNE 30, 2006**  
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**GREG OGDEN, CPA  
1761 EAST 850 SOUTH  
SPRINGVILLE, UT 84663  
(801)489-8408**

MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

**November 6, 2006**

**Honorable Mayor  
Members of the City Council  
Highland City, UT**

**Council Members:**

The primary purpose of my audit of the basic financial statements of Highland City, Utah for the year ended June 30, 2006, was to enable me to form an opinion as to the financial position of the City at that date and the results of its operations for the year then ended. Part of my continuing professional responsibility to my clients is to offer constructive suggestions relative to the City's internal control structure and other matters that come to my attention during my audit of your financial statements. Your internal control structure is extremely important because it is the principal safeguard against irregularities which an audit may not disclose.

Enclosed for your information and consideration are my comments and suggestions relating to internal accounting controls and other general matters which came to my attention during my audit of the financial statements. I have not performed any auditing procedures beyond the date of my opinion on the financial statements; accordingly, this letter is based on my knowledge as of that date and should be read with that understanding.

In those instances where the need for improvement of internal accounting controls may be indicated, I have satisfied myself by extension of audit tests and review that the indicated weaknesses have not had a significant effect upon the financial statements for the year ended June 30, 2006. Since the purpose of my audit was not to make an intensive study of the matters commented upon, additional investigation may be required before acting on my suggestions.

My suggestions deal exclusively with operational, accounting, and recordkeeping systems and procedures, and should not be regarded as a reflection on the integrity or capabilities of anyone in your organization.

I appreciate the cooperation and assistance I have received from the City's personnel in connection with my audit and in developing these recommendations.

This report is intended solely for the use of the management of Highland City. However, this report is a matter of public record and its distribution is not limited.

I would be pleased to discuss any of these matters with you and your representatives at your convenience and, if desired, to assist you in implementing any of these suggestions.

  
Greg Ogden,  
Certified Public Accountant

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

### **STATE COMPLIANCE FINDING**

#### **FINDING - DEPARTMENTAL BUDGET OVERSPENT**

State law requires that departmental expenditures be limited to the budgeted amounts. The 2006 fiscal year budget for the garbage department was overspent.

#### **RECOMMENDATION**

I recommend that expenditures be kept within the budgeted amounts. The City should review the budget at the end of the year and amend it if necessary to ensure that no departmental budgets are overspent.

#### **RESPONSE - HIGHLAND CITY**

The City will ensure that this fund is within budget and make any accrual entries.

#### **FINDING - OUTSTANDING CHECKS**

The City currently has twenty six outstanding checks totaling \$4,559.69 which are more than one year old.

#### **RECOMMENDATION**

The State requires that unclaimed property be sent to the Division of Unclaimed Property annually. These checks should be researched, and if the payee cannot be located, the amount should be sent to the Division of Unclaimed Property.

#### **RESPONSE - HIGHLAND CITY**

We will research and issue replacement checks if we can find them. If not, we will send the funds to the Division of Unclaimed Property. If the checks are under the minimum according to the Unclaimed Property Division we will void these checks.

### **INTERNAL CONTROL FINDINGS**

#### **FINDING - RECLASSIFICATION OF REVENUES AND EXPENSES**

Many adjusting journal entries were required this year to reclassify revenues and expenses to the proper account or fund.

#### **RECOMMENDATION**

Care should be taken to ensure that all revenues and expenses are posted to the correct account and to the correct fund.

#### **RESPONSE - HIGHLAND CITY**

The City recently hired Lynn Ruff as full-time Finance Director and he will have the time to monitor the various accounts. Also, the City is in the process of implementing a new purchase order requisition system which will ensure correct coding of expenditures.